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SPECIAL REPORT

Strengthen Medicare for the 21st Century: Add a Prescription Drug Benefit

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Strengthen Medicare for the 21st Century: Add a Prescription Drug Benefit

While Medicare provides broad coverage for the costs of many health services, there are significant gaps in Medicare coverage. The most notable shortcoming is the lack of a prescription drug benefit. Most beneficiaries have some form of additional insurance to cover some expenses not met by Medicare. However, much of this coverage either does not include prescription drugs or offers only very limited protection for drug expenses. As a result, three out of four Medicare beneficiaries lack decent, dependable private-sector coverage of prescription drugs. (*Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drugs*, National Economic Council/Domestic Policy Council, July 1999)

Prescription Drugs—A Standard Part of Adequate Health Insurance Coverage

Breakthroughs in the pharmaceutical industry continue to make access to prescription drugs more and more important. Prescription drug coverage was not a standard part of health insurance when Medicare was enacted in 1965. Since 1965, drug coverage has become a key component of most private and public health insurance coverage—except for Medicare.

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Drug coverage is a part of virtually all employer-based plans (EBRI Issue Brief, April 1999). More than 90 percent of private sector employees who have employment-based health insurance have coverage for prescription drugs. Ninety-nine percent of State and local government employees who have employment based coverage have coverage for prescription drugs. Also, prescription drug coverage is included in health insurance provided to active-duty Department of Defense (DOD) employees. Medicaid provides prescription drug coverage in all 50 States. All plans participating in the Federal Employee Health Benefits Program (FEHBP) are required by the Office of Personnel Management to cover prescription drugs. Medicare beneficiaries need and deserve the same protection.

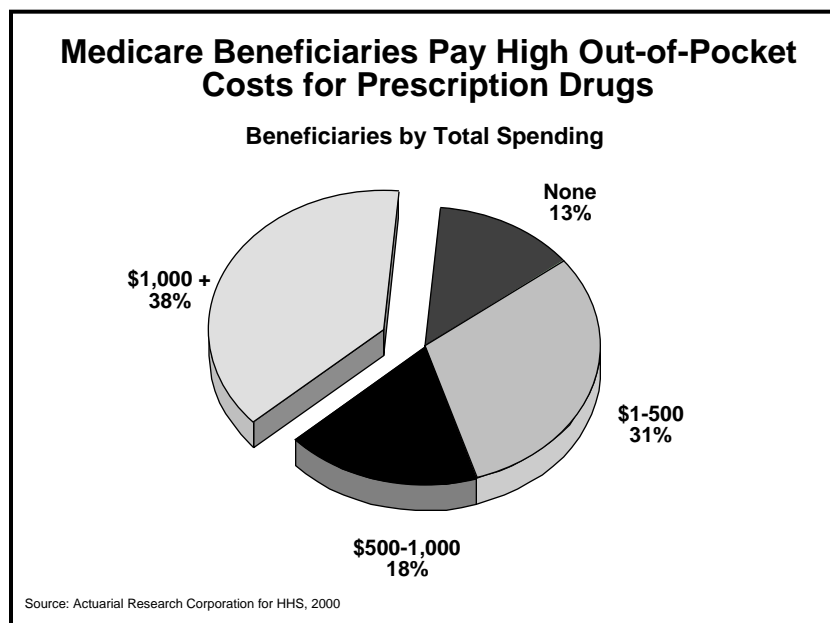
Medicare Beneficiaries Face High Costs for Prescription Drugs

Prescription drugs are the largest out-of-pocket health care cost for seniors. More than 85 percent of Medicare beneficiaries take at least one prescription medicine, and the average beneficiary fills eighteen prescriptions per year (Health Affairs, January 1999). Seniors who cannot afford drug coverage often do not take the drugs their doctors prescribe and sometimes are left to juggle paying for drugs with paying for other basic necessities. One report found that one in eight senior citizens choose between buying food and buying medicine their doctors prescribe. (Families USA Foundation, *Worthless Promises: Drug Companies Keep Boosting Prices*, March 1995)

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The average total drug cost for Medicare beneficiaries is estimated to approach \$1,100 in 2000. Even those beneficiaries with some coverage for prescription drugs incur high out-of-pocket spending, an average of close to \$700 per year. (*Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, Health Affairs; January/February, 1999)



Prescription Drugs are a Necessary Part of Modern Medicine

Prescription drugs are a necessary component of modern medicine. Moreover, older Americans particularly are reliant on prescription drugs to maintain healthy, active lifestyles. On the whole, seniors experience greater health problems, and the problems they encounter generally include illnesses that respond well to prescription drug therapy. For example, about 60 percent of people over age 65 have hypertension. Hypertension nearly doubles the risk of cardiovascular disease and is the leading factor for stroke. Highly effective drugs prescribed to control hypertension (ACE inhibitors) typically cost \$40 per month.

In addition, prescription drugs may offer more effective treatment for conditions that previously required hospitalization or surgery. Disease management and other changes in medical practice have led to greater use of prescription drugs. For example, heart disease is the leading cause of death for persons 65 and over. Disease management, including lipid-reducing drugs for persons who survive heart attacks, has been shown to improve health and longevity and to reduce the need for bypass surgery. A common lipid-reduction drug costs \$85 per month.

Prescription Drug Expenditures are Rising

Prescription drug expenditures have grown at double-digit rates during almost every year since 1980. In contrast, the rate of increase in total

national health expenditures decreased from approximately 13 percent in 1980 to less than five percent in 1997 (although there is evidence it is rising again). In 1997, prescription drug expenditures had the highest growth rate of all health services and supplies: 14.1 percent, compared with the overall health care expenditure growth rate of 4.8 percent.

(EBRI Issue Brief, April 1999)

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Price inflation, the volume of prescriptions and the introduction of new drugs to the market all contribute to rising prescription drug

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expenditures. Americans were prescribed 40 percent more prescriptions in 1998 than in 1992. (Prescription Drugs: A Primer for Policymakers, Alliance for Health Reform, October 1999)

The introduction of new and costlier drugs significantly contributes to rising expenditures. One study estimates that in

1998, the average price per prescription of new drugs (introduced in 1992 or after) was \$71.89, compared to \$30.47 for drugs on the market prior to 1992. The same study cited an increase in the average price per prescription from \$26.21 in 1993 to \$37.38 in 1998. (Factors Affecting the Growth of Prescription Drug Expenditures, NIHCM Foundation, July 1999)

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In addition to rising costs, U.S. citizens also face higher drug prices than their neighbors in Canada and Mexico. The U.S. General Accounting Office (GAO) found U.S. drug prices for specific drugs were, on average, one-third higher than in Canada (1991) and

“U.S. drug prices for specific drugs were, on average, one-third higher than in Canada (1991) and 60 percent higher than in the United Kingdom (1992).”

60 percent higher than in the United Kingdom (1992). A recent study by the National Council of Senior Citizens of the top 10 prescription drugs used by older Americans found that in every instance U.S. citizens were paying significantly more for the same drugs than Canadian and Mexican consumers. (“Rip-Off! America’s Seniors Pay the Highest Prescription Drug Prices in the World,” *Seniority* magazine, October/November, 1999) As a result, there has been substantial documentation of seniors traveling to Canada and Mexico to be able to afford the drugs they need. (60 Minutes, October 17, 1999)

Senior Citizens Without Coverage Face the Highest Prices

Numerous studies have found that older Americans pay high prices for prescription drugs. The Congressional Budget Office reported in a 1998 study “[d]ifferent buyers pay different prices for brand-name prescription drugs ... In today’s market for outpatient prescription drugs, purchasers

that have no insurance coverage for drugs ... pay the highest prices for brand name drugs.” The Federal Trade Commission has also reported that drug manufacturers use a

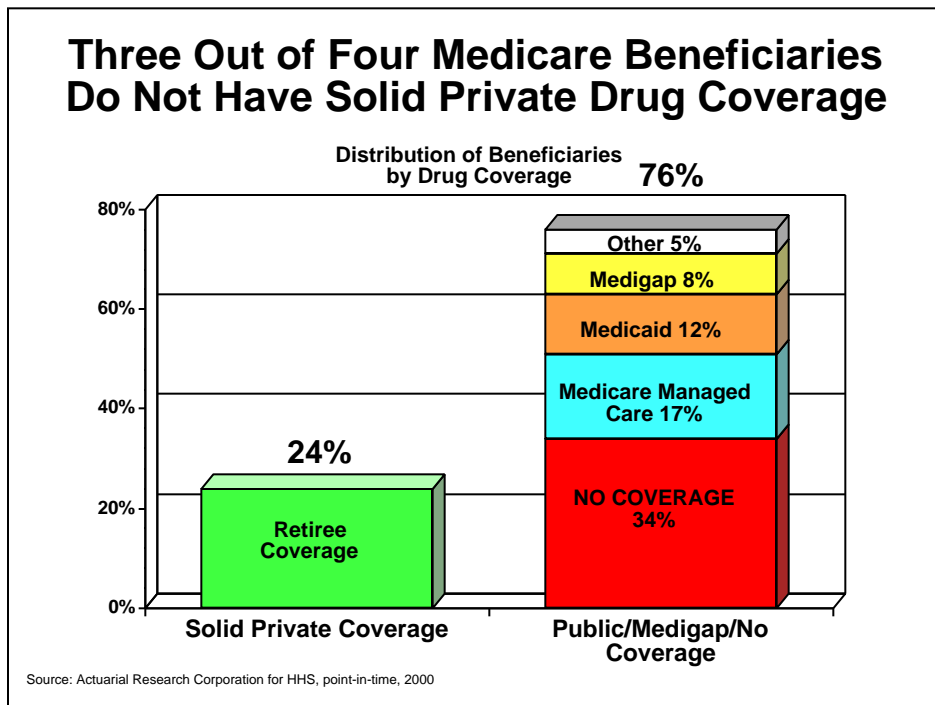
two-tiered pricing structure under which they charge higher prices to those without insurance coverage. (Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, March 1999)

“...purchasers that have no insurance coverage for drugs ... pay the highest prices for brand name drugs.”

A recent study by the U.S. House of Representatives Committee on Government Reform (Minority Staff) found that older Americans and others who pay for their own drugs are charged more for their prescription drugs than favored customers such as health maintenance organizations and the Federal Government.

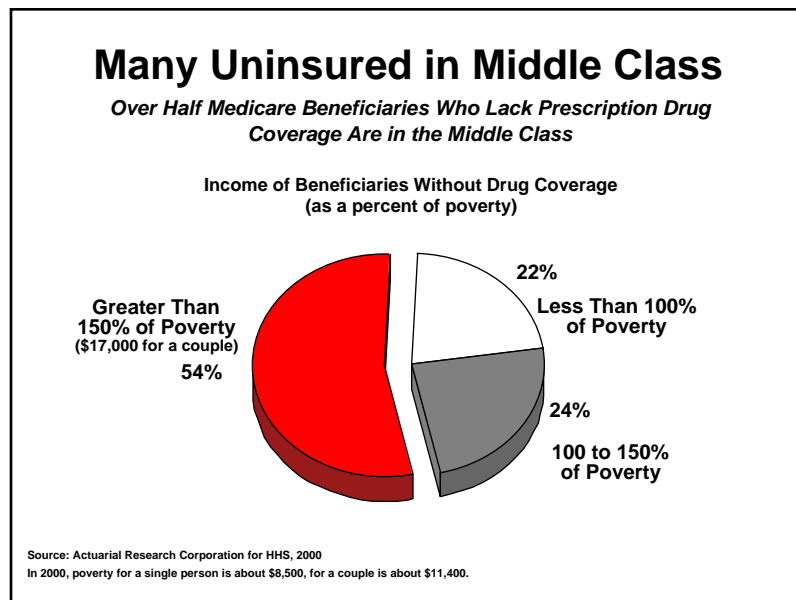
Medicare Beneficiaries Lack Coverage for Prescription Drugs

Three out of four Medicare beneficiaries lack decent, dependable private-sector coverage of prescription drugs.



At least one-third of Medicare beneficiaries have no drug coverage at all. Many of those individuals without coverage are middle class. Fifty-four percent of Medicare beneficiaries without drug coverage have incomes in excess of 150 percent of poverty, an annual income of approximately \$17,000 for couples. (*Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drugs*, National Economic Council/Domestic Policy Council, July 1999)

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Limited Options for Medicare Beneficiaries

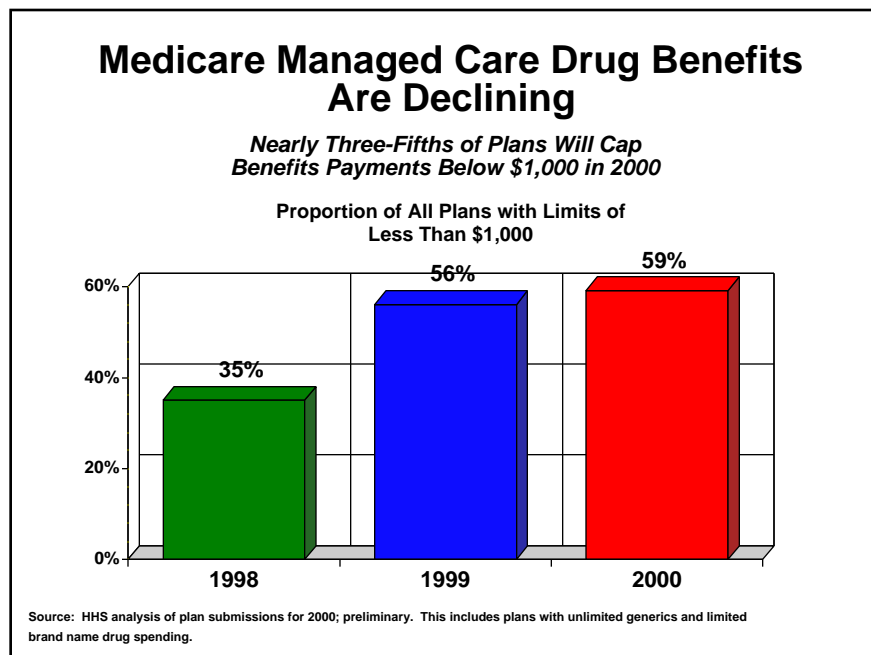
Medicare beneficiaries have extremely limited options available to obtain prescription drug coverage under existing private and public programs.

Medigap. Three of the ten standard Medigap plans include a prescription drug benefit. However, this coverage is limited and has high copayments and deductibles. Two of the standard Medigap plans have a \$250 deductible and cover 50 percent of drug costs up to \$1,250. The third plan is the same, with a \$3,000 annual benefit. Access to Medigap coverage is not always an option, even if a beneficiary can afford it. Under Federal law, after the initial open enrollment period, insurers can refuse to issue Medigap

policies on the basis of age or health status and can impose preexisting condition exclusion periods and refuse to cover certain conditions.

While eight percent of Medicare beneficiaries purchase Medigap with drug coverage, premiums are expensive and increase with age. The average Medigap premium is \$1,360 per year (Out-of-pocket Spending on Health Care by Medicare Beneficiaries Age 65 and Older: 1999 Projections, AARP, December 1999)

Medicare Managed Care (Medicare+Choice). Many Medicare beneficiaries are able to enroll in a Medicare health maintenance organization, referred to as a Medicare+Choice (M+C) plan. M+C plans are not required to cover prescription drugs, but many plans provide some level of coverage. While 17 percent of all beneficiaries have prescription drug coverage through a M+C plan, this source of coverage is unstable because M+C plans are decreasing their drug coverage and the number of beneficiaries enrolling in M+C plans is declining.

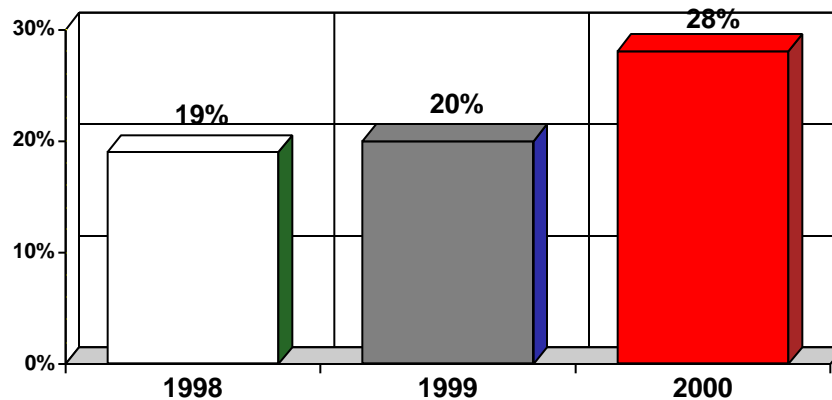


In the year 2000, many M+C plans will restructure drug benefits in ways that will increase enrollee out-of-pocket costs and limit drug coverage. For example, the percentage of plans with annual drug benefit limits of \$500 or less will increase from 21 percent in 1999 to 32 percent in 2000.

Medicare Managed Care Drug Benefits Are Decreasing 1998 - 2000

Proportion of Plans With a \$500 or Lower Limit Has Increased by 50%

Proportion of All Plans with Limit of \$500 or Less



Source: HHS analysis of plan submissions for 2000; preliminary. This includes plans with unlimited generics and limited brand name drug spending.

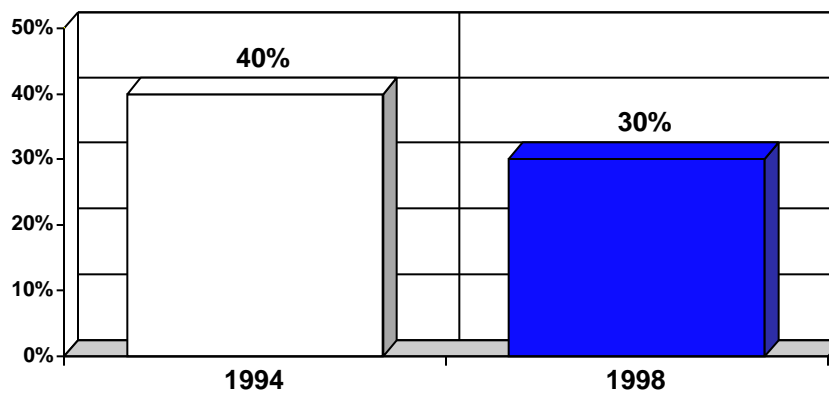
Moreover, M+C plans are implementing tighter restrictions on coverage of brand-name drugs. (Medicare+Choice: Changes for the Year 2000, Health Care Financing Administration, September 1999)

In 2000, all M+C plans will, for the first time, charge copayments for prescription drugs. The Health Care Financing Administration estimates that in 2000 average copayments for brand-name drugs likely will increase by 21 percent, and average copayments for generic drugs likely will increase by eight percent. (Medicare+Choice: Changes for the Year 2000, Health Care Financing Administration, September 1999)

Retiree Health Coverage is Declining

25% Fewer Firms Are Offering Retiree Health Benefits

Firms Offering Retiree Health Coverage



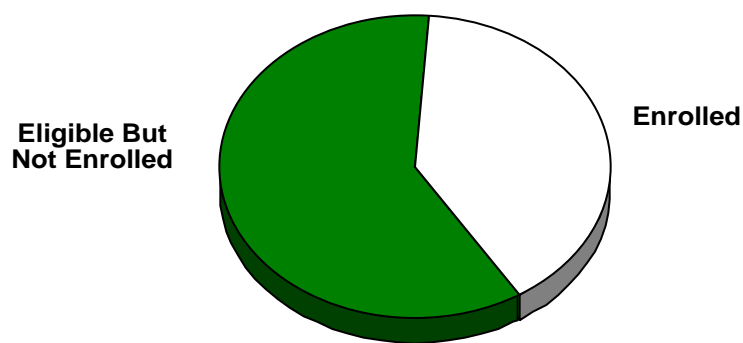
Source: Foster-Higgins, 1998

Retiree coverage. Employers may offer their retirees health benefits, though the number offering such coverage has declined in recent years. Only one-fourth of Medicare beneficiaries have retiree drug coverage. One study found the number of firms offering retirees prescription drug coverage declined from 40 percent in 1994 to 30 percent in 1998. (Foster Higgins, 1998)

Participation in Medicaid is Low

Only 40% of Eligible Medicare Beneficiaries Are Enrolled in Medicaid

Eligible Medicare Beneficiaries' Enrollment in Medicaid



Source: Actuarial Research Corporation for HHS. Calculated assuming that beneficiaries below 73% of poverty are eligible for full Medicaid benefits through SSI (Kaiser Commission on Medicaid & the Uninsured, May 1999).

Medicaid. Medicaid provides prescription drug coverage for some low-income seniors. However, participation in Medicaid by those eligible (75 percent of poverty, about \$6,000 for an individual and \$8,500 for a couple) remains low, about 40 percent. The participation rate in Medicare Part B is almost 100 percent.

Conclusion

Medicare beneficiaries—the people who rely on prescription drugs the most—lack adequate coverage for needed drug therapies. The Medicare program should include coverage for prescription drugs, an essential part of modern medicine. Democrats are committed to ensuring that Medicare meets the needs of older Americans, including a prescription drug benefit for older Americans.